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SUBJECT: ENERGY EFFICIENCY: SOUTH AFRICA READY TO PLUG INTO CSD MATRIX

1. SUMMARY. Following highly successful presentations by Griff Thompson, Sr. Energy Advisor, the South Africa government (SAG) and Eskom, South Africa's electrical power giant, agreed to follow a process leading to the May 2006 meeting of the Commission on Sustainable Development Meeting (CSD 14) that would emphasize implementation and project development, rather than a mere review of technologies and policies. Eskom committed to researching its data base for feasible regional projects, although it would not commit to having such a project ready by CSD 14. The SAG concurred that specific projects linked to potential avenues for financing would be a far more productive path. SAG agreed to advise the embassy of upcoming meetings at which the Department could present the matrix being developed by the CSD Secretariat and to assist in contributing case studies and best practices to the matrix. Several useful additions to the matrix were offered, including adding measurement criteria. END SUMMARY.

US ADVOCATES CSD SECRETARIAT'S MATRIX

2. Griff Thompson, Sr. Energy Advisor, Department of State, briefed several major players in the South Africa energy arena during his visit after the joint SA Department of Science and Technology (DST) and Organization for Economic Cooperation and Development (OECD) Energy Workshop, held November 21- 22, 2005. His brief relied upon the following key points: The CSD is more than just 2 weeks in NYC; work needs to begin now to make CSD14 more than simply a review session. There are no great mysteries to be reviewed. Those in the field know what the issues are, the technologies and the barriers. Spending a year reviewing what is already known wastes important opportunities.

3. The U.S. has supported the CSD Secretariat in its work to develop a matrix that can be used to maximize CSD14/15. The matrix will collect case studies and projects that can then be replicated in other countries and regions. In this context, the U.S. views energy efficiency as the critical element. \$16 trillion is needed between now and 2030 to adequately respond to the growing global energy demand, so financing of these projects is the key. A properly constructed matrix can be used to identify champions who will broker relationships and partnerships. The U.S. aims to be pro-active in assisting in seeking the necessary support from donors, and to helping form strong partnerships with the World Bank and other entities. Sequencing is another critical element. Energy efficiency measures require a continuum of financing. If the right measures are chosen, then projects can move from the grant stage to the market-based stage and be self-supporting. Finally, the U.S. views energy efficiency as a fundamental developing country priority because it bridges the development and environmental agenda by directly responding to the issues of air pollution, while alleviating poverty. Access to energy services is a necessary catalyst to economic and political development.

ESKOM WILL WALK THE PATH IF FUNDING COMMITMENTS ARE MADE

4. Thompson's first meeting was with Wendy Poulton, Eskom General Manager - Corporate Sustainability and Rochelle Chetty, Chair of Eskom's Business Action for Energy (BAE). Eskom, a SA state-owned entity, is a vertically integrated utility that generates transmits and distributes electricity. It supplies approximately 95% of the country's electricity and 60% of the total electricity consumed on the African continent. Compared with other international utilities, Eskom is the eleventh in terms of generating capacity and ninth in terms of sales, and boasting the world's largest dry-cooling power station. Eskom sells directly to approximately 6 000 industrial, 18 000 commercial, 70

000 agricultural and 3 million residential customers. Eskom also supplies electricity to some 284 municipalities which then distribute to their clients. Eskom owns and operates 13 coal-fired, 2 gas-fired, 2 hydro and 2 pumped storage power stations, as well as one nuclear power station. Eskom transmission lines span the entire country and extend into most Southern African Development Community (SADC) countries. Its distribution teams connect an average of 1 000 new homes every day. The majority of sales are in South Africa, with only small percentage elsewhere in the Southern African region.

15. Eskom participates as a member of the BAE and the International Chamber of Commerce (ICC), serving as Chair of the Environment and Energy Committee of the ICC. Eskom has been pushing for a stronger voice, more opportunity for dialogue, and a bigger role in partnership developments for the ICC. Eskom is currently searching for a flagship regional project that it can roll out on the grid. Eskom has identified an infrastructure project and is involved in regional initiative for that project. An informal meeting on the project was held in Nairobi earlier this year. The SA Minister of Minerals and Energy attended and wants to hold another side meeting concerning the project at Dubai. Eskom and the Minister hope to align the project within the CSD process. UNEP has been helpful in facilitating the meetings. The BAE would consider other events at which it could piggyback these meetings.

16. After listening to Thompson's presentation, Poulton immediately turned to financing. Ms. Poulton plainly stated that Eskom would be interested and would participate in the Energy Efficiency Investment- Forum. She noted that South Africa business and the Department of Mines and Energy have recently signed an energy efficiency accord that would be in line with the U.S. proposal. But, in her opinion, financing of projects remains the key element. It is vital to leverage multilateral financing, and to provide developing countries with credit/ benefits/ incentives (similar to the CDM).

17. Poulton noted that it is easier to bundle projects and that Eskom currently participates in the SA Power Pool (SAPP). Although there have been discussions within that organization about regional bundling and projects, nothing formal has been proposed. Other regional organizations in which Eskom participates include the Power Institute of East and Southern Africa (PIESA) (with members outside SADC - Uganda and Kenya) which focuses on research, joint projects, standards and distribution, and the Union of Producers and Distributors of Africa (UPDIA) which also has broader membership than SADC. In response to Thompson, Poulton said that she would research what case studies Eskom currently has on regional projects and would advise him.

18. Ms. Poulton concluded by returning to the issue of funding. She asked for more details regarding who would provide the funding and who would be decide what projects to fund. She noted that it is very disheartening to do all the work necessary to prepare a project and then get no funding. She concluded by commenting that it was questionable if anything regional could be developed in time for CSD 14.

SAG UNFOLDS MATRIX - OFFERING SUGGESTIONS, REVISIONS

19. Thompson then briefed a group of South African government representatives, including Judy Beaumont, Chief Director: Planning and Coordination, Department of Environmental Affairs and Tourism (DEAT), Blessing Manale, Director for Sustainable Development and Coordination (DEAT) and Elsa Du Toit, Director for Energy Efficiency and the Environment, Department of Minerals and Energy (DME). He later briefed Peter Lukey, DEAT's Chief Director: Air Quality Management and Climate Change.

110. Beaumont first noted that the government of South Africa does not like to fragment issues such as climate change away from other environmental issues. However SAG does agree that a major challenge would be making certain that CSD 14 is robust, measurable, reviews good practices and scopes out what is needed for CSD 15. Beaumont also agreed that it was useful and important to define priorities early with clear definitions and interlinking between themes. Beaumont felt that the US approach using energy as the "glue" holding everything together was constructive. Whatever the final process/

approach, the primary goal for South Africa remained obtaining specific commitments especially in financing, technical support and capacity building. Thompson responded that it is important to get beyond the broad generalities of "capacity building" and "financing". Everyone agrees that these two are critically needed, but until countries begin to define specifically what kind of capacity, for whom, for what; and similarly, what kind of financing for what energy service and for whom, they will continue to address the problem only rhetorically. The framework provided by the proposed matrix allows countries to begin to identify the details of these various cross-cutting themes, and gets everyone closer to tangible solutions.

¶11. Blessing commented that the mere establishment of partnerships was not particularly meaningful. He noted that there are over 300 partnerships now operating in SA but no one in government has any real details on how well these partnerships operate. No body, such as the UN, monitors what is accomplished. He believes that the energy invested in managing these partnerships might be better invested into more realistic projects

¶12. Du Toit commented that she was an operational person. . In her mind, reviewing is now complete and it is time for implementation. As an operational person, she commented that the matrix did not have any measurement criteria. Outputs need to be defined and measured.

¶13. Du Toit then noted that for many developing countries, including South Africa, too much attention is wasted on electrification. Electricity is still far too expensive for many South Africans. What is needed is an energy package that allows the consumer to choose the most effective energy source, whether that source be candles, gas stoves, solar or electricity. Providing people with free candles and solar appliances would be far better in her opinion than electrifying the country. Government should be working to make the fuel people do use cleaner, safer and more sustainable. People must be brought up to a basic level before advancing to what people cannot afford.

¶14. Du Toit concluded by advising that the African Ministers of Energy and Hydropower Conference would be held March 6-9 in Sandton. This would be an ideal venue at which to seek additional support. She will keep the embassy informed about details of the meeting as they are made public. She also noted that it might be helpful to attend the meetings of the Energy Ministers of Africa (AFRIC). She will provide more information on that organization as well.

¶15. Final comments from this group focused on the role of civil society and labor. All SAG participants felt that the participation of civil society, labor and business within the CSD process was not as robust as it needed to be. (FYI. This comment had been echoed in an earlier conversation between EST Off and Eskom. End FYI) Both business and labor see the UN process as not accessible and less than transparent. Noting the U.S. was also not pleased by the lack of participation, Thompson said that he had met with the Secretariat and the Chair seeking ways to open the meetings and the discussions. The U.S. hopes to make business, civil society and labor authentic partners in the CSD process.

¶16. Peter Lukey and Reginald Mabalane, Dir AQM, described the role of DEAT in all multilateral organizations. DEAT coordinates the SAG position. For DEAT, the nexus between climate change and energy is a major concern since climate change adversely affects South Africa's ability to develop. CSD policies must align with Kyoto. The objective for South Africa at CSD remains the desire for a tangible outcome, measurable impacts in SA, and technology transfers. None of this has really happened yet and there have never been any real commitments to make this happen. The proposed matrix by the CSD Secretariat is a good start but it is merely a "poetry basket" now. The matrix needs tangible projects with cost/benefits analysis and concrete programmatic items. The bottom line should be a document with specific clear interventions having clear impacts.

¶17. Lukey also noted that although South Africa has huge coal reserves, the SAG has a strong commitment to reduce coal usage. In this regard, SAG is in the process of establishing a new National Energy Efficiency Agency under DME. This entity will coordinate public and private energy efficiency investment. Currently electricity in South Africa is the cheapest in the world. The government does not want

to raise prices as this would adversely impact business, industry and transportation which would not help development. DEAT is in partnership with DME to reduce residential coal burning, using a grass roots technique invented in the late 1800s by a SA housewife. This top down coal burning reduces 80% of emissions and 20% of fuel usage. DEAT will shortly be rolling out a new publicity campaign.

18. Lukey also noted that there were other ways the government could increase energy efficiency including the introduction of fees and tariffs similar to those now used in the water sector. All residents receive a basic water ration, usage above that rate is charged at a flat fee until a certain luxury level is reached. Then the luxury rate is charged. This is an important incentive for water conservation and could work for electricity as well.

CONCLUSION: SOUTH AFRICA'S MAIN CONCERN: SHOW US THE MONEY!

19. Despite the initial hesitations from DEAT, by the end of that conversation DEAT appeared willing to join with the U.S. in following the matrix process at CSD
14. Eskom committed to participate as well. Both entities, however, remain cautious. Unless specific financing and commitments can be shown, neither SAG nor Eskom will be willing to walk this path for long. They are quite articulate and explicit about their requirement for specific and concrete projects and funding. If the U.S. cannot fulfill their commitment to help, then it would be better to know that sooner rather than later.

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